Annual Report 1978
Finning Tractor & Equipment Company Limited

COVER

Park-like setting of new Nanaimo building attracts inquisitive young deer who are regular visitors to 10-acre site near Island Highway. Karen Glencross, secretary, snapped this candid picture from reception area.

Caterpillar 225 excavator works on re-routing of Big Bend Highway at Revelstoke Dam site. Approximately 90 miles of highway will be relocated to bypass dam and reservoir.

FINNING

FINNING

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SECOND 1977 INTERIM REPORT

to the shareholders

for the six months period

ended June 30

Chairman's Report

July 29, 1977

To the Shareholders:

Revenue for the first half of 1977 was $124,391,000 compared to $92,507,000 for the same period in 1976. Profit increased from $3,882,000 to $5,552,000. This amounts to $1.40 per share as compared to 98¢ for the same period in 1976.

The improvement in earnings resulted from increased activity and effective cost controls. Our markets, particularly heavy construction, have been better than expected. The labor scene, although not yet settled, has been relatively peaceful.

Since the federal budget has not yet become law, the tax relief provided by the proposed three per cent inventory deduction is not reflected in these statements.

The outlook for the remainder of the year is promising; our customer orders remain steady and satisfactory.

Your company maintains close contact with the oil and natural gas industry and the start of any new pipeline construction in Canada should have a positive impact on our operations.

W M Young

W. M. YOUNG
Chairman of the Board and
Chief Executive Officer

Interim Consolidated Statement of Income

	Three months ended June 30 1977	Three months ended June 30 1976	Six months ended June 30 1977	Six months ended June 30 1976
	(thousands of dollars)			
Revenue	$ 63,370	$ 52,037	$ 124,391	$ 92,507
Cost of sales and operating expenses	57,983	47,889	113,825	85,609
Income before income taxes	$ 5,387	$ 4,148	$ 10,566	$ 6,898
Provision for income taxes	2,544	1,864	5,014	3,016
Net income	$ 2,843	$ 2,284	$ 5,552	$ 3,882
Income before income taxes as a percentage of revenue	8.5%	8.0%	8.5%	7.5%
Net income as a percentage of revenue	4.5%	4.4%	4.5%	4.2%
Net income per Common Share	$ .72	$ .58	$ 1.40	$ .98
Number of Common Shares outstanding during the period	3,971,400	3,971,400	3,971,400	3,971,400

Interim Consolidated Statement of Changes in Financial Position

	Six months ended June 30 1977	Six months ended June 30 1976
	(thousands of dollars)	
Funds provided by:		
Operations—		
Net income	$ 5,552	$ 3,882
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers	3,900	3,394
Fixed assets	953	898
Deferred income taxes	(1,079)	470
Total funds from operations	$ 9,326	$ 8,644
Sale of fixed assets	109	122
	$ 9,435	$ 8,766
Funds applied to:		
Additions—		
Equipment leased to customers, net of disposals	$ 1,788	$ 5,010
Fixed assets	2,480	1,197
Payment of long-term debt	24	19
Dividends paid	993	794
	$ 5,285	$ 7,020
Increase in working capital	$ 4,150	$ 1,746
Working capital, January 1	12,138	10,048
Working capital, June 30	$ 16,288	$ 11,794

Approved on behalf of the Board,

J D Frazee

J. D. Frazee, Director

V Sood

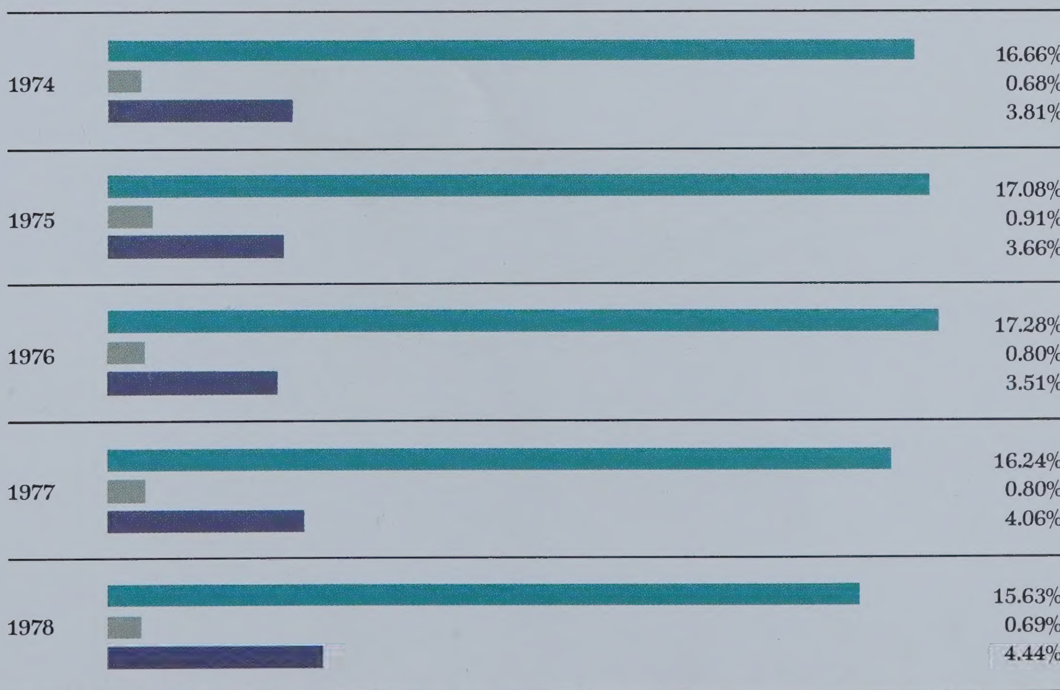
V. K. Sood, Director

The above statements have not been audited and are subject to year-end adjustments.

Results in brief

(dollars in thousands)	**1978**	1977
Revenue	**$287,933**	$246,761
Income before income taxes	**24,012**	19,652
Net income	**14,769**	12,002
Capital expenditures	**11,319**	5,155
Net income per share	**$ 3.72**	$ 3.02
Income before income taxes as a percentage of revenue	**8.3%**	8.0%
Net income as a percentage of revenue	**5.1%**	4.9%
Number of employees at year end	**1,791**	1,694

Total wages, salaries and benefits ▬ dividends ▬ and reinvested earnings ▬ as a percentage of revenue



Chairman's report

Revenue for the year 1978 was $287,933,418, compared with $246,760,983 in 1977, an increase of 16.7%. Net income increased to $14,768,675 from $12,001,600, an increase of 23.1%. This amounted to $3.72 per share as compared to $3.02 per share in 1977.

These results were satisfactory. Our profitability reflects higher revenues, a lower effective tax rate and some further internal efficiencies. Higher interest rates had an unfavorable impact on our business but the successful issue of $30 million secured debentures last September has tended to temper the effect of the rapid increase in short term interest rates.

In this Annual Report we are featuring some of our new premises so that we can share with you the pride we take in these new facilities.
It was a record year in terms of capital expenditures on both plant and equipment. These expenditures were necessary to maintain and improve our competitive position. There is still much to be done and capital investment will continue at a relatively high level.

Recently, the Gardner-Denver Company, of Dallas, Texas, the major supplier to our Air Products Division, announced merger arrangements with Cooper Industries, of Houston, Texas. We do not anticipate any change in our relationship with the new corporation and believe, as do the merging companies, that a better, stronger corporation will result.

Although we do not have definitive results of the drilling program, our $2.5 million investment in the Beaufort Sea drilling program of Dome Petroleum Limited appears to have excellent potential. Dome was unable to complete testing of the wells drilled because of early encroachment of the ice pack. Testing will be done as soon as possible in their 1979 season.

1979 should be a good year. We have concerns about the weakness of the Canadian dollar in relation to other world currencies and particularly the U.S. dollar. Although many of our major customers export a good deal of their production and derive some benefit from the devaluation of the Canadian dollar, we would tend to view any further reduction in the value of the dollar as being an unhealthy situation for Finning.

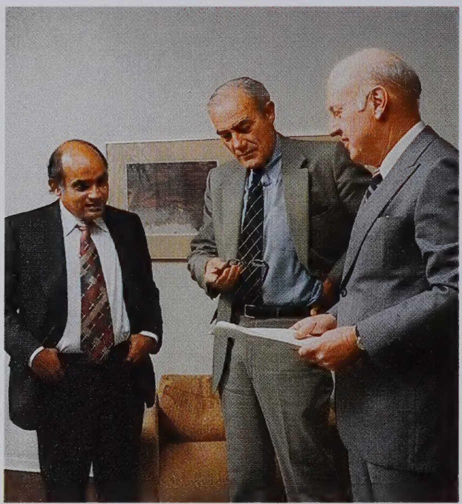
This year many of our major customers will be entering into labor negotiations, as we ourselves will be next October. Any prolonged work stoppages could be a major impediment to our growth in 1979, but, generally, we are optimistic for the year.

W. M. Young

W. M. YOUNG
Chairman of the Board and
Chief Executive Officer

Perched on slope, Caterpillar D6D tractor pioneers new access road to Apex ski resort near Penticton. The D6D is in demand for medium-size construction and logging duties.

President's report



John D. Frazee, President, flanked by Vinod K. Sood (left) and Robert C. Biss, Executive Vice Presidents.

1978 was a good year for us. All in all, our employees, staff and management did a commendable job in 1978 and are to be congratulated for their effective efforts. There were few surprises; our operating results were very close to expectations.

Caterpillar, our major manufacturer, had a year of strong demand which resulted in some tightness of supply for us but not enough to cause serious trouble.

Customers in the forest industry purchased more machines and services than we had expected but this was offset by lower demand from the heavy construction industry.

Divisional operations did well. Both Air Products and Crane and Excavator maintained the high levels of performance from prior years, while Lift Truck and Power Products were able to capitalize on resurgent markets and improved their overall results.

Light Industrial product sales, well above previous years, were helped late in the year by the acquisition of a line of British loader backhoes manufactured by JCB, which are smaller and complementary to the Caterpillar product. They are well established in the United Kingdom and Europe and, we believe, will be well accepted in our construction and utility markets.

Financing and leasing operations continue to be profitable in spite of current interest costs and ever-increasing competition.

The Service Department experienced difficulty last year in meeting objectives. An experimental program designed to alleviate problems associated with overtime and time off in cyclical periods of high activity fell short of expectations. The program has been modified and we believe the department is back on course.

Our Training group is active and expanding. We find a ready market for management, supervisory and technical training, and the market discipline has the added advantage of enhancing the quality of our extensive internal training.

There is a continuing shortage of skilled heavy duty diesel mechanics in B.C. and the Yukon. Your Company runs an extensive apprenticeship program designed to produce the skill levels required, but recently the supply of suitable candidates has not matched the demand. Consequently, we actively recruit suitable individuals as far east as the Maritimes and Newfoundland. Of our total employee roll of 1,791, some 1,000 are in mechanical service and 370 in parts distribution and warehousing.

In 1979 we expect to increase our sales to heavy construction with mining showing strength later in the year. The start of major gas pipelines remains uncertain while new shipbuilding should give engine and electric set sales a boost.

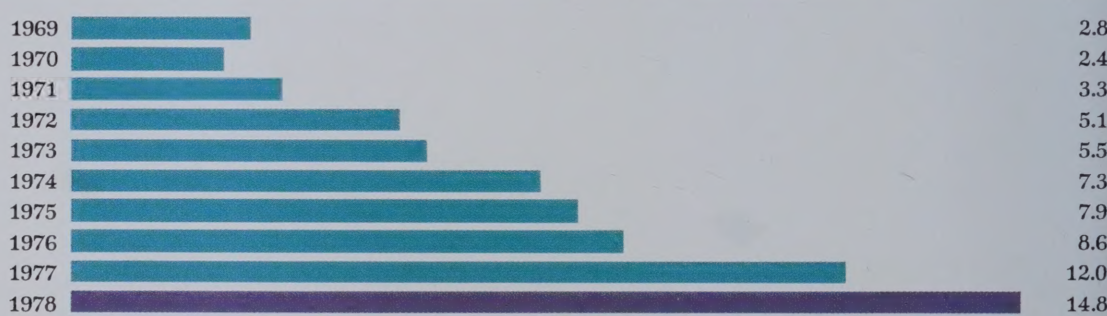
We anticipate an active and profitable 1979.

J. D. FRAZEE
President and
Chief Operating Officer

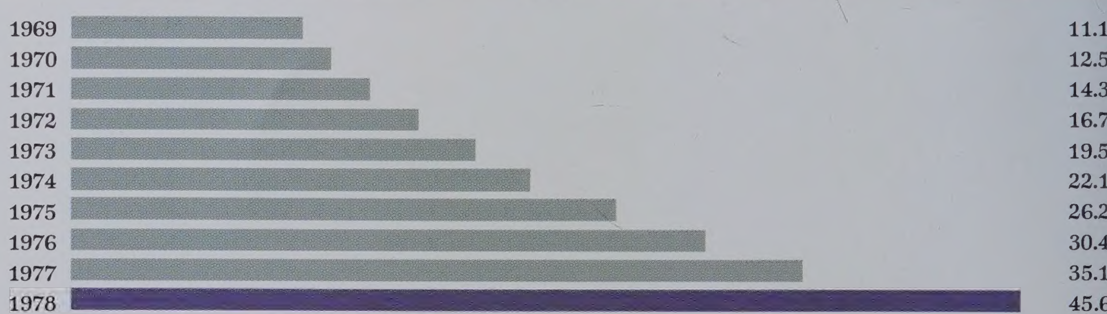
Working to beat winter, Caterpillar 613B elevating scraper hauls 11 cubic yards of dirt on road job near Fort St. John. Three 613Bs helped move 800,000 cubic yards of fill.

Revenue
millions of dollars

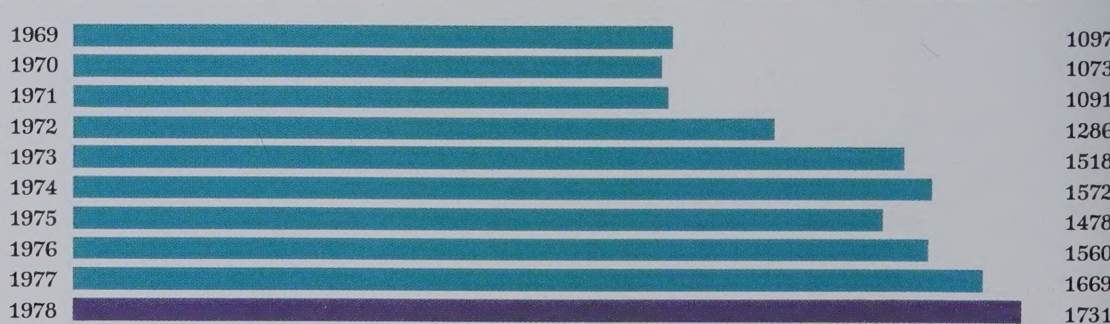
Net Income
millions of dollars



Investment in
Fixed Assets — at cost
millions of dollars



Average Number
of Employees



Highlights of operations

	Revenue	Income Before Income Taxes	Net Income	Capital Expenditures	Net Income Per Share	Income Before Income Taxes as a Percentage of Revenue	Net Income as a Percentage of Revenue	Number of Employees at Year End
1969	$ 78,584,000	$ 5,671,000	$ 2,772,000	$ 1,985,000	$ .71	7.2%	3.5%	1,207
1970	74,092,000	4,867,000	2,384,000	1,630,000	.61	6.6%	3.2%	1,011
1971	91,707,000	6,422,000	3,286,000	1,786,000	.84	7.0%	3.6%	1,180
1972	126,622,000	9,732,000	5,084,000	2,552,000	1.31	7.7%	4.0%	1,373
1973	148,157,000	11,241,000	5,475,000	3,533,000	1.40	7.6%	3.7%	1,577
1974	162,101,000	15,424,000	7,286,000	3,232,000	1.85	9.5%	4.5%	1,542
1975	173,812,000	15,675,000	7,942,000	4,628,000	2.00	9.0%	4.6%	1,467
1976	199,795,000	14,583,000	8,609,000	4,497,000	2.17	7.3%	4.3%	1,664
1977	246,761,000	19,652,000	12,002,000	5,155,000	3.02	8.0%	4.9%	1,694
1978	287,933,000	24,012,000	14,769,000	11,319,000	3.72	8.3%	5.1%	1,791

Consolidated balance sheets
as at December 31, 1978 and 1977

Assets

	1978	1977
CURRENT ASSETS:		
Accounts and notes receivable (Note 6) —		
Accounts receivable (Note 2)	$ 42,616,803	$ 30,211,081
Instalment notes, at principal balances, including $22,775,504 due after one year ($21,697,956 in 1977)	49,315,241	45,930,381
Income taxes refundable	—	943,997
Inventories (Notes 3 and 6) —		
Equipment	69,075,396	54,471,698
Parts and supplies	33,655,018	25,183,978
Total current assets	$194,662,458	$156,741,135
EQUIPMENT LEASED TO CUSTOMERS (Notes 4 and 6)	$ 51,827,491	$ 40,780,316
FIXED ASSETS, at cost (Notes 5 and 7):		
Land	$ 4,668,872	$ 3,775,806
Buildings and equipment	$ 40,894,616	$ 31,301,715
Less accumulated depreciation	16,149,715	13,595,893
	$ 24,744,901	$ 17,705,822
Total fixed assets, net	$ 29,413,773	$ 21,481,628
	$275,903,722	$219,003,079

Approved by the Directors:

J.D. FRAZEE, Director V.K. SOOD, Director

Finning Tractor & Equipment Company Limited

Liabilities

	1978	1977
CURRENT LIABILITIES:		
Bank indebtedness (Note 6)	**$108,166,431**	$107,395,310
Accounts payable and accruals (Notes 7 and 8)	**35,212,147**	28,722,876
Income taxes payable (Note 9) —		
Current	**1,440,982**	—
Deferred	**10,212,329**	8,302,098
Total current liabilities	**$155,031,889**	$144,420,284
LONG-TERM DEBT (Note 7)	**$ 30,000,000**	$ 153,094
DEFERRED INCOME TAXES (Note 9)	**$ 15,494,080**	$ 11,834,923
SHAREHOLDERS' EQUITY (Note 10):		
Share capital (Notes 11 and 12)	**$ 9,096,562**	$ 9,096,562
Earnings retained for reinvestment in the business —		
Balance, beginning of year	**$ 53,498,216**	$ 43,482,316
Net income	**14,768,675**	12,001,600
Dividends paid	**(1,985,700)**	(1,985,700)
Balance, end of year	**$ 66,281,191**	$ 53,498,216
Total shareholders' equity	**$ 75,377,753**	$ 62,594,778
	$275,903,722	$219,003,079

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated statements of income

for the years ended December 31, 1978 and 1977

	1978	1977
REVENUE	**$287,933,418**	$246,760,983
EXPENSES (Notes 13 and 14):		
Cost of sales and selling expenses	**$236,432,076**	$202,547,062
General and administrative	**16,683,343**	15,830,032
Interest — current	**9,830,908**	8,731,936
— long-term	**975,000**	—
	$263,921,327	$227,109,030
INCOME BEFORE INCOME TAXES	**$ 24,012,091**	$ 19,651,953
PROVISION FOR INCOME TAXES (Note 9)	**9,243,416**	7,650,353
NET INCOME	**$ 14,768,675**	$ 12,001,600
NET INCOME PER SHARE (Note 15)	**$ 3.72**	$ 3.02

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated statements of changes in financial position

for the years ended December 31, 1978 and 1977

WORKING CAPITAL PROVIDED BY:	**1978**	1977
Operations —		
Net income	**$ 14,768,675**	$ 12,001,600
Add charges not requiring the outlay of working capital —		
Depreciation —		
Equipment leased to customers	**10,227,584**	8,400,105
Fixed assets	**2,870,919**	2,049,042
Deferred income taxes	**3,659,157**	2,471,155
Total working capital from operations	**$ 31,526,335**	$ 24,921,902
Sales of fixed assets	**515,470**	291,505
Long-term debt	**30,000,000**	—
	$ 62,041,805	$ 25,213,407
WORKING CAPITAL APPLIED TO:		
Additions —		
Equipment leased to customers, net of disposals	**$ 21,274,759**	$ 17,794,706
Fixed assets	**11,318,534**	5,155,194
Payment of long-term debt	**153,094**	94,771
Dividends paid	**1,985,700**	1,985,700
	$ 34,732,087	$ 25,030,371
Increase in working capital	**$ 27,309,718**	$ 183,036
WORKING CAPITAL, BEGINNING OF YEAR	**12,320,851**	12,137,815
WORKING CAPITAL, END OF YEAR	**$ 39,630,569**	$ 12,320,851

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to consolidated financial statements

December 31, 1978

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of all subsidiary companies and of the partnership, Finning Tractor Co.

The subsidiary companies, which are wholly-owned, are:
Airpro Equipment Ltd., also operating as Finning Air Products Division
Finning Computer Services Ltd.
Finning Finance Limited
Finning Tractor (1959) Ltd.

During 1978, two wholly-owned subsidiaries, Cancal Properties Ltd. and Finning Air Products Ltd., were wound up and their assets, liabilities and operations transferred to their parent companies.

Finning Tractor Co. is a partnership between Finning Tractor & Equipment Company Limited and Finning Tractor (1959) Ltd.

2. ACCOUNTS RECEIVABLE

The Company has invested $2,500,000 in a Dome Petroleum Limited off-shore drilling program in the Beaufort Sea. This is a "carried interest" arrangement whereby the Company does not have to provide further funds to bring about the completion of the drilling program, regardless of circumstances.

After application of federal income tax recoveries, this investment is recorded at a net cost of $460,000 and is included in accounts receivable.

3. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost has been determined on a specific item, actual cost basis for equipment and on a first-in, first-out basis for parts and supplies.

4. EQUIPMENT LEASED TO CUSTOMERS

	1978	1977
Cost	$70,715,813	$56,801,793
Less accumulated depreciation	18,888,322	16,021,477
	$51,827,491	$40,780,316

Depreciation of equipment leased to customers has been provided in the accounts in equal monthly amounts over the terms of the individual leases after giving recognition to the estimated residual value of each unit of equipment at the end of each lease.

Under the terms of the lease agreements in effect at December 31, 1978, $12,231,670 of the above costs will be recovered in 1979 ($10,079,518 in 1978).

5. FIXED ASSETS

Depreciation of fixed assets has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
General equipment	20%
Automotive equipment	30%

6. BANK INDEBTEDNESS

	1978	1977
Demand bank notes	$ 2,834,309	$ 38,737,606
Bankers' acceptances payable at various dates within 30 days after December 31, 1978 (within 37 days after December 31, 1977)	105,332,122	68,657,704
	$108,166,431	$107,395,310

Demand bank notes and bankers' acceptances are secured by a general assignment of accounts and notes receivable, by an assignment of insurance on inventories and by a first floating charge on current assets and equipment leased to customers. The loan agreement with the bank contains certain restrictions which, among other things, limit distributions to shareholders as explained in Note 10.

7. LONG-TERM DEBT

	1978	1977
9¾% Secured Debentures, 1978 Series, to mature September 1, 1985	$30,000,000	$ —
Other first mortgages	—	178,002
Other secured agreements ..	—	25,775
	$30,000,000	$ 203,777
Less current maturities included in accounts payable and accruals	—	50,683
	$30,000,000	$ 153,094

The 9¾% Secured Debentures, 1978 Series, are secured by a Trust Deed which constitutes a first fixed charge on substantially all the real property of the Company and a first floating charge on all other fixed assets. The Company is required to use reasonable efforts to purchase in the market at least $300,000 principal amount of Debentures in each six month period ending the last day of February and August in the years 1979 to 1985 inclusive at prices not exceeding the principal amount and in accordance with the terms of the Trust Deed. In addition, these Debentures may be redeemed after February 29, 1984 at the option of the Company.

8. CURRENCY TRANSLATION

The accounts payable and accruals include $6,556,836 ($7,396,772 in 1977) payable in U.S. funds which has been translated to Canadian funds at the year-end exchange rate.

9. INCOME TAXES

The provision for income taxes is calculated on the basis of current effective tax rates. The provision represents 38.5% (38.9% in 1977) of pre-tax income of $24,012,091 ($19,651,953 in 1977) and is net of the federal investment tax credit and the impact of the 3% federal inventory allowance.

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from the Company's accounting policies.

The deferred income taxes shown as a current liability relate to the following current assets:

(a) Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded on the basis of rentals billed while for income tax purposes maximum allowances are claimed.

(b) Notes receivable, which include conditional sales contracts relating to equipment sales. For accounting purposes, the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

The non-current deferred income taxes relate to equipment leased to customers on which depreciation for accounting purposes is recorded as explained in Note 4. For income tax purposes, maximum allowances are claimed.

10. RESTRICTIONS ON THE DISTRIBUTION OF SHAREHOLDERS' EQUITY

The Trust Deed securing the 9¾% Secured Debentures, 1978 Series, and an agreement with the Company's bank contain restrictions on the declaration and payment of dividends and the reduction of share capital. Under the most restrictive provision, the amount available for these purposes was $12,782,975 at December 31, 1978 ($10,015,900 at December 31, 1977).

11. SHARE CAPITAL

The Company is authorized to issue 10,000,000 Common Shares without par value, of which 3,971,400 were outstanding at December 31, 1978. There were no changes in the outstanding share capital during 1978 and 1977.

12. STOCK OPTIONS

Under an employee stock option plan established in 1969, 111,000 Common Shares remain reserved. Options on these shares may be granted at prices not less than 90% of the higher of the last reported sale prices of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

13. PENSION PLAN

The Company retains an independent consultant who prepares actuarial reports every two years, the most recent of which was prepared as at December 31, 1977. The consultant has estimated that the funds in the plan were more than adequate to meet the liabilities which existed at December 31, 1977.

Based on actuarial calculations which include a projection of future remuneration, the estimated unfunded past service cost was $1,056,000 at December 31, 1977. Commencing in 1978, this cost is being funded in equal annual instalments over a period of eight years and is being charged to expense in equal annual instalments according to their nature over periods of two and 14 years.

Pension expense, including contributions to statutory plans, was $1,253,000 in 1978 ($1,222,330 in 1977).

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers was $849,095 in 1978 ($818,201 in 1977).

15. NET INCOME PER SHARE

Net income per share has been calculated on the 3,971,400 Common Shares outstanding during 1978 and 1977.

16. CANADIAN ANTI-INFLATION LEGISLATION

The Company and its subsidiaries have been subject to, and have complied with, the price, profit, compensation and dividend controls which were imposed until December 31, 1978 by federal legislation.

Auditors' report

To the Shareholders, Finning Tractor & Equipment Company Limited

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1978 and 1977, and the related consolidated statements of income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of the Company and its subsidiaries as of December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

February 9, 1979
Vancouver, Canada

Cat pipelayers lay section of natural gas line running 103 miles from Grizzly Valley fields to Willow Flats. Northeastern B.C. was the busiest area of activity during the year.

All markets create strong demand

Strong demand in the Company's major markets maintained a high level of equipment, parts and service sales. The forest industry experienced a second strong year; activity in the earthmoving segment of the construction industry accelerated in the final months; mining took on a brighter outlook; and the "oil patch" in the northeast corner of the province was the scene of boom times.

Most forest product companies reported record results and our sales of tractors, wheel loaders, motor graders, skidders were higher than anticipated. Housing starts in the United States were surprisingly strong and British Columbia's share of U.S. lumber consumption set a new record. Lumber exports to Europe and Japan also increased. Newsprint production ran at full capacity; demand and selling prices for pulp and paper rose steadily; plywood sales were excellent.

SLOW START, STRONG FINISH

Sales of the larger-model machines used in heavy construction were hindered by a slow start in highway work. However, after July, the B.C. Department of Highways called some $60 million of construction and paving projects. These included the first section of the Coquihalla Pass route, an eventual $250 million link between Hope and Kamloops, and the last portion of the Vancouver Island Highway from Victoria to Port Hardy. Up north, work continued on the Alaska Highway and started on the Shakwak Highway which will join Whitehorse and Alaska.

The largest single project was B.C. Hydro's Revelstoke Dam where awards were made for an $18 million coffer dam and a $72 million earthfill wing dam. Because of the reservoir that will be created, 90 miles of Big Bend Highway have to be relocated and initial work has started.

With this activity, plus some double-tracking of CP Rail's main line, more than 200 Caterpillar machines were working in the Revelstoke area.

The picture for mining brightened and there was indication that the industry may be beginning an upward cycle. Exploration increased, metal prices improved. Sales of bulldozing, road maintenance, loading and hauling equipment were mainly for replacement.

Copper production, despite closure of one mine and a lengthy labor dispute at another, was only fractionally less than in 1977. Values were higher due to better prices and the favorable currency exchange rate. Coal had a better-than-expected year with significant increases in production and value. Molybdenum remained strong, lead and zinc gained.

Busiest of our operations were those centred in Dawson Creek. Exploration in the "oil patch" reached boom-like proportions as every available drill rig (some 65) was employed. Machine sales were tempered only by short supply of some Caterpillar models.

The Silver Dahl and Grizzly Valley natural gas pipelines totalling 197 miles were laid.

USED MACHINE SALES INCREASE

The trading of used equipment continues to contribute significantly to the Company's revenue and profit. Dollar volume increased over 1977 disproportionately to unit volume because of buyer emphasis on higher priced, later model machines. Steps were taken to further develop and expand international sales.

The parts department achieved real growth in the face of intense competitive pressures, particularly in high volume items. Parts availability was at an all-time high, testifying, in part, to the efficiency of data processing inventory control and parts ordering systems. All but three of the Company's 21 branches have on-line computer capabilities.

Service department revenue hours were relatively flat despite new and improved facilities and staffing. Bright spots geographically were the busy Dawson Creek area and the Lower Mainland where special repair and maintenance programs made gains.

SUPPORT PROGRAMS EMPHASIZED

Several special marketing programs were emphasized during the year. An increased product support field sales force promoted inspection and report programs, undercarriage measurement, Scheduled Oil Sampling, and total maintenance and service contracts. A new program was introduced — a no charge in-shop inspection. Under this plan, machines in our shops for repair are given a complete inspection to determine if repairs to other components may be needed.

The five product divisions as a group achieved their best year in several. While Air Products and Crane and Excavator repeated 1977's good showing, Lift Truck, Light Industrial and Power Products each turned in much improved performances.

The Air Products Division's operations in British Columbia and Alberta finished the year slightly ahead of forecast. Sales of Gardner-Denver compressors and drills were below expectations but Finning Tank Drill and high reach equipment sales more than compensated. An hydraulic Tank Drill was introduced at the American Mining Congress in Las Vegas.

Driltech, a line of rotary drills used in quarries, water well drilling and similar applications, was acquired during the year.

On December 1, an Air Products operation was opened in Saskatoon to serve the growing resource industries of Saskatchewan with Gardner-Denver air products, JLG and Smith aerial work platforms. All Air Products operations in the three provinces now trade under the name of Airpro Equipment Ltd.

In the Crane and Excavator Division, the petroleum industry and a healthier pulp and paper market boosted the purchase, lease and rental of Grove hydraulic cranes. The 20-ton and 35-ton rough terrain models and the 35-ton truck-mounted unit were in demand in the Peace River area and at pulp mills throughout the province. Overall volume doubled over 1977.

SMALLER EXCAVATOR ADDED TO LINE

Sales of Caterpillar hydraulic excavators increased. Our two adaptations of these machines for the forest industry — a roadbuilder and a tree harvester — continue to be sold in good volume. The number of excavators placed in construction applications was up, helped by the introduction of the 215, smallest in Caterpillar's four-model excavator line. The 215 is used mainly in installation of sewer and water services. Although it is new to the North American market, it has been manufactured and sold in Europe since 1976.

The Lift Truck Division had a good year, exceeding its objectives in revenue and profitability. Sales of Caterpillar electric-powered lift trucks, which are manufactured in the United Kingdom, maintained the high volume of the previous year in warehousing and food processing plants. Bigger capacity units and the Division's HD series (a Caterpillar wheel loader fitted with lift

Increased horsepower and weight are features of new Caterpillar 980C wheel loader introduced in 1978. Versatile unit is used in the woods, on dryland sorts, in millyards.

World's largest track-type tractor, the 700-horsepower, 90-ton D10 was introduced by Caterpillar. First unit in B.C. will be at work on Revelstoke Dam in March, 1979.

truck mast) were well accepted in millyards and building supply outlets. Leasing in combination with a guaranteed service contract is an effective marketing tool and one such example was a fleet sale of 10 lift trucks to a building supply retailer.

The Light Industrial Division, which markets the smaller machines in the Caterpillar line, increased its sales in 1978, particularly in tractors and track loaders. However, growth in this Division continues to be hampered by the slowdown in home building.

NEW BACKHOE INTRODUCED

A new product line, the JCB backhoe loader manufactured in Britain, was acquired early in the year and was introduced to the marketplace through a series of demonstrations at major locations. This machine, which supplements the Caterpillar products, gives us an entry into the utility backhoe market. JCB is the dominant machine of its type in Europe and because of its features, should be well accepted here in ditching, backfilling and utility work.

The Power Products Division showed a strong surge in all markets with the biggest gain in the marine industry. Caterpillar has produced a number of new engine models in recent years and the 3400 series is proving popular in towboat and fishboat installations. Sales of the 3208T pleasure boat engine doubled over 1977 levels.

The power generation market held up well in both units and dollars. Forestry, mining, construction and other industrial markets present good opportunities for electric sets sales and there is increased interest in export of "packaged" electric sets and switchgear.

Emphasis was maintained on parts and service support for Caterpillar truck engines through the Burnaby Truck Shop, now in its fifth year of operation, and through our other branches and sub-dealers.

Sales of Perkins diesel engines more than doubled. Pleasure boat and industrial applications showed major growth while electric power generation markets improved to a lesser degree. The Perkins diesels complement the higher horsepower Caterpillar models and enable the Company to serve a broader range of the power market.

Caterpillar continues to devote large sums of money to engineering and research ($256.1 million in 1978). This expenditure has led to constant development of new and improved products. During the year, in addition to the 215 hydraulic excavator mentioned earlier, Caterpillar introduced improved models of off-highway trucks, the 35-ton 769C and 50-ton 773B; a new version of the third largest wheel loader, the 980C; a new gasoline or LPG-fueled engine for cushion tire lift trucks. A new lower horsepower version of the midrange 3208 engine for use in inter-city trucks and three new fuel economy versions of the heavy-duty 3406 engine expanded sales opportunities to truck fleets. New 7211 and 7221 marine transmissions complete the line of heavy-duty marine diesels with matching gears.

FINANCING, LEASING GROWTH

Our finance operations received emphasis as both an important marketing tool and profit opportunity. At year end the lease and conditional sales contract portfolios stood at $101 million, up $14 million from 1977.

Financing is an integral part of the umbrella of services offered a customer before, during and after his purchase under the name of CAT PLUS. These extra value services include assistance in selecting the right product for the particular application; financing through conditional sales agreements, rental or leasing; and parts and service support once the machine is working. In addition, training programs are provided, seminars held, new machines demonstrated, factory visits arranged.

The Training Department showed its largest increase ever in both revenue and training hours. Our parts apprenticeship program was approved as the standard for British Columbia and the Department has been selected to conduct this training for all B.C. parts apprentices. Mechanical training continued at last year's levels. External programs for management and supervisory personnel expanded in both B.C. and Alberta.

97 MORE EMPLOYEES

The number of employees at year end was 1,791 compared to 1,694 in 1977. Total wages, salaries and benefits paid to employees in 1978 was $45,007,907 compared to $39,848,699 in 1977.

The current two-year contract between the Company and the International Association of Machinists and Aerospace Workers terminates in October, 1979.


BEAUFORT SEA
Tuktoyaktuk
Inuvik
ALASKA
YUKON
NORTHWEST TERRITORIES
Dawson City
Whitehorse
Cassiar
Fort Nelson
BRITISH COLUMBIA
ALBERTA
Fort St. John
Dawson Creek
Mackenzie
PACIFIC OCEAN
Prince Rupert
Smithers
Terrace
Edmonton
Queen Charlotte City
Houston
Fort St. James
Burns Lake
Sandspit
Prince George
Quesnel
Williams Lake
Calgary
Avola
100-Mile House
Clearwater
Kamloops
Golden
Revelstoke
Invermere
Port Hardy
Highland Valley
Vernon
Nakusp
Branches
Depots
Residences
Airpro Equipment Ltd. Branches
Coal Harbour
Squamish
Merritt
Kelowna
Chilliwack
Penticton
Nelson
Campbell River
Vancouver
Princeton
Creston
Burnaby
Nanaimo
Langley
Lake Cowichan
Victoria
UNITED STATES
Map not to scale.

Building for today and tomorrow

1978 was a year of record capital expenditures for the Company. The $11.3 million invested in land, buildings and equipment was more than double the previous high of 1977.

In the last five years, the Company has spent some $29 million in acquiring land; renovating, extending and constructing facilities; installing tools and equipment. It is interesting to note that expenditures for the 233 full-line Caterpillar dealers world-wide over the same period totalled $550 million.

THREE NEW BRANCHES OPENED

Major projects started in 1977 and completed in 1978 included Revelstoke, 9,400 square feet, centre of major logging activity and adjacent to the Revelstoke Dam project; Sparwood, 27,000 square feet, to serve coal mining and logging operations in the southeast Kootenays; Nanaimo, 17,000 square feet, to serve central Vancouver Island forest operations and service industries.

Major projects started during the year included a facility of 13,000 square feet at Fort St. John to supplement our major branch at Dawson Creek and a new building of 12,800 square feet at Quesnel to replace smaller premises opened in 1973.

A 10,400-square-foot addition to the Williams Lake branch was near completion at year end. Other additions and/or renovations were completed at Mackenzie, Victoria, Whitehorse and Dawson Creek.

Including the premises now under construction, the Company has some 760,000 square feet under roof. Three-quarters of this space is devoted to parts warehousing and repair services.

Specialized welding areas feature latest automatic machines. High-ceilinged paint shops accommodate biggest rigs; are outfitted with all anti-pollution devices.

Illuminated sign blends with building lights in panoramic night view of new Sparwood facility. This $2.7 million complex serves Kootenay mining and logging operations.

Typical of service facilities is new Sparwood shop with overhead cranes, fibreglass doors which admit 70 per cent natural light, latest repair and test tools.

This page shows $1.6 million Fort St. John building, bright office area at Edmonton, 9,400 square foot Revelstoke facility, section of parts warehouse at Nanaimo.

Finning Tractor & Equipment Company Limited

Directors

WILLIAM T. BARKER
President and General Manager,
Consolidated Equipment &
Supply Co. Ltd.,
Vancouver

H. CLARK BENTALL
Chairman of the Board and
Chief Executive Officer, The Dominion
Construction Company Limited,
Vancouver

ROBERT C. BISS*
Executive Vice President,
Finning Tractor & Equipment Company Limited,
Vancouver

JOHN D. FRAZEE*
President and Chief Operating Officer,
Finning Tractor & Equipment Company Limited,
Vancouver

JOHN C. GILMER†
Company Director. Formerly President and
Chief Executive Officer, CP Air,
Vancouver

MICHAEL M. KOERNER
President,
Canada Overseas Investments Limited,
Toronto

THOMAS E. LADNER, Q.C.†
Partner, Ladner Downs,
Vancouver

RICHARD E. LANE†
Retired. Formerly President and
Chief Operating Officer,
Finning Tractor & Equipment Company Limited,
Vancouver

VINOD K. SOOD*
Executive Vice President,
Finning Tractor & Equipment Company Limited,
Vancouver

W. MAURICE YOUNG*
Chairman of the Board and Chief
Executive Officer,
Finning Tractor & Equipment Company Limited,
Vancouver

*Member, Executive Committee
†Member, Audit Committee

Officers

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Chairman of the Board and
Chief Executive Officer

JOHN D. FRAZEE
President and
Chief Operating Officer

ROBERT C. BISS
Executive Vice President

VINOD K. SOOD
Executive Vice President

W. F. (JERRY) HOLMES
Vice President Marketing

DONALD W. LORD
Vice President Branch Operations

RONALD W. PARK
Secretary

Head Office

555 Great Northern Way,
Vancouver, Canada
V5T 1E2

Auditors

Arthur Andersen & Co.,
Chartered Accountants,
Vancouver, Canada

Solicitors

Ladner Downs,
Barristers and Solicitors,
Vancouver, Canada

Registrar and Transfer Agent

Canada Permanent Trust Company,
Vancouver, Calgary, Winnipeg,
Toronto and Montreal, Canada

Stock Exchanges

Vancouver Stock Exchange
The Toronto Stock Exchange

Operations, Division and Staff Managers

J. J. Blunt, Prince George Sales
J. A. Carthy, Power Products
C. A. Cederberg, Whitehorse
D. L. Christie, Administration
R. W. Claridge, Lift Truck
P. Clarke, Pipeline Sales
G. M. Correale, Vernon
B. I. Davis, Vancouver Service
J. D. Desimone, Prince George
D. R. George, Kamloops
C. A. Harris, Data Processing
A. E. Holden, Light Industrial
E. G. Inglis, Training
G. E. Johnson, Dawson Creek
R. M. Kaye, Vancouver
G. F. Kiss, General Service
R. C. Ley, Advertising & Public Relations
C. C. Loyst, Personnel
H. H. Lunow, Purchasing
B. A. McDowell, Cranbrook
J. J. Malden, Terrace
W. F. Merrell, Accounting
B. M. Moore, General Parts
T. R. Motteler, Product Support Sales
J. J. Mulvaney, Used Equipment Administration
L. E. Norlander, Audit & Tax
J. A. Powell, Sparwood
R. J. Sangster, Financial Services
R. S. Scott, Finance
J. F. Shepard, Williams Lake
T. A. Shorter, Used Equipment
R. W. Stewart, Mining
P. G. von der Porten, Vancouver Parts
R. G. Williamson, Air Products

Harsh Alberta winter doesn't delay repairs as steam cleaning of JLG aerial work platform goes on inside shop of new Airpro Equipment facility in Edmonton.

FINNING

YOUR CATERPILLAR DEALER

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555 Great Northern Way, Vancouver, B.C., V5T 1E2

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